

**UNDERSTANDING THE ROLE OF PUBLIC PREFERENTIAL PROCUREMENT
ON THE DEVELOPMENT OF BLACK OWNED CONSTRUCTION SMME'S IN
SOUTH AFRICA**

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LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|-------|---|
| BEE | Black Economic Empowerment |
| BBBEE | Broad-Based Black Economic Empowerment |
| DTI | Department of Trade and Industry |
| RSA | Republic of South Africa |
| SMME | Small, Medium and Micro Enterprises |
| SME | Small Medium Enterprises |
| GDP | Gross Domestic Product |
| OECD | Organisation for Economic Cooperation and Development |
| GVA | Gross Value Added |
| SEDA | Small Enterprise Development Agency |
| MBE | Medium Business Enterprises |
| CIDB | Construction Industry Development Board |
| ABE | Affirmative Business Enterprise |
| TP | Targeted Procurement |
| PPPFA | Preferential Procurement Framework Act |
| NEP | New Economic Policy |
| NSB | National Small Business Act |
| DSBD | Department of Small Business Development |
| NOS | Net Operating Surplus |
| QFS | Quarterly Financial Statements |
| NSBAC | National Small Business Advisory Council |
| MBDA | Minority Business Development Agency |

ABSTRACT

Public Preferential procurement in south Africa was established to mainly ensure that the previously disadvantaged individuals could take part in the economy and ensure that they are the preferred partner or supplier of goods and services between the government and the public sector. This was critical in ensuring that the previously disadvantaged individuals in South Africa participated in the economy. Through the establishment of small micro medium enterprises in South Africa the government encouraged the establishment of these entities as vehicles that would be primarily supported by the government to give effect to the development of the smme's with particular emphasis on those that were black owned.

This study seeks to get an understanding on the efforts that have been made to advance and develop the smme's in the construction sector. The main feature of the study is to establish and understand the public preferential procurement system and its role in developing the black owned smme's in the construction sector. In creating this understanding, a look at the development and growth of the black owned smme in the construction sector formed an integral part of this study.

Questionnaires were issued to the black owned smme's where a qualitative study was conducted for them to share their views on the role the preferential procurement has had on mainly their growth and development. Predominantly a level of disappointment has been expressed. According to the smme's the preferential procurement legislation and practices have not yielded the desired results and have thus failed.

The study has found that in practice the role of the public preferential procurement system has not supported the development of the smme's and has rather failed them as it has not provided the desired opportunities, development and the growth but has rather proven to be a challenge to the smme's.

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The 1994 elections in South Africa marked the end of white minority rule and the beginning of a new era of political, economic and social transformation in the country. While political power shifted from white to black hands without the major social disruptions that many had expected, the economy remained widely dominated by the white minority, and socio-economic transformation soon proved to be a major challenge. The newly elected government, under the leadership of the African National Congress (ANC) was committed to altering the racial patterns characterizing the economy, and a broad range of policies and institutions were set in place to guide economic transformation. It was clear that an active approach to transformation was needed if substantive changes were to take place. Although the framework has been adapted over the years and up until now guidelines and regulations are still being adjusted, government has remained committed to the process (Sanchez, 2006).

As with any process initiatives with a predefined goal, its success needs to be monitored, evaluated and measured in relation to its goals. Following the setting of the objectives, the implementation becomes a crucial point in ensuring success of the initiative. Government has the authority through parliament to enforce legal means to guide for the implementation of its desired outcome. Government has legislated for the implementation of Black Economic Empowerment. These laws form the basis for the implementation and compliance of BEE initiatives. (Watermeyer, 2000).

Government, as a substantial contributor within the construction sector in South Africa, will be the focal point in this analysis to establish the impact of its BEE initiatives and the preferential public procurement policies. The Government, being a significant spender in the South African economy plays a critical role in the developing of small medium and micro enterprises (SMME's). Considerable contribution can be made by SMMEs in the economy and thus increasing the participation of the small and medium enterprises in the economy.(QUALMANN, 2000)

It is important that an analysis on government expenditure is made so as to determine if it is in line with the socio-economic objectives of the government policy. The preferential public procurement /Targeted Procurement policies are designed to target black enterprises and ensure their participation in the economy by providing business opportunities for black or previously disadvantaged owned entities.

With the above objective in mind, the South African legislation has had to take into consideration legislation that would advance black economic empowerment. The Black Economic Empowerment Act of 2003 was then passed into law (Balshaw et al, 2008) states the objectives of BBBEE act as being to facilitate broad based economic empowerment by promoting economic transformation in order to enable black people to participate meaningfully in the economy.

There is various legislation that relates to the enforcement or in line with the BBBEE ACT. In this study focus is orientated towards the impact of government expenditure in the economy and its ability to meet its BBBEE objectives. In ensuring that government advances BBBEE through its own expenditure, the preferential public procurement policy framework was formulated in 2000. This legislation was then known as the Preferential Procurement Policy Framework No. 5 of 2000. Balton (2004) describes this Act as one of many mechanisms that the democratically elected South African Government post 1994, established to reverse the discriminatory and unfair practices of the past, which prevented a number of groups from accessing government contracts.

The Impact and the limitations of this Act form the essence of this study. Attention is paid to how the government expenditure is utilised to uplift the black small, medium and micro enterprises within the construction sector in South Africa. Emphasis in this study is made on black SMME's rather than SMME's in general to establish the success of the preferential policies success in uplifting and promoting black-owned entities in particular. The investigation focuses on the limitations of the policy in fulfilling its intended objectives of ensuring that the black SMME's acquire the economic benefits and are being developed to be sustainable enterprises.

The construction industry is one of the economic sectors that is affected by the BEE legislation in this country. The history of this sector is similar to those depicted in most industries in South Africa. Blacks constitute a large skilled labour force in this industry. However, this is not reflected when observing the participation of black-owned entities in the construction industry. The majority of South Africans have not been at the forefront of economic activity in this sector. Black-owned entities were not representative in terms of numbers of the demographics of the country. Following 1994, there has been a realisation to raise the level of participation of previously disadvantaged individuals beyond the level of skilled labour to the participation of black-owned business entities.

With the establishment of small, medium and micro enterprises, it became logical that the black-owned entities would be significant in this level, as they never were provided the opportunities. The SMMEs establishment promoted the participation of black entities in the construction industry and became a viable tool to ensure black business participation. The establishment growth and sustainability of these SMMEs requires this study to be undertaken so as to establish if the current status of the construction and infrastructure delivery sector has all the desired impact to advance the smme development. Louw (2010) also affirms that preferential procurement creates employment and business for the disadvantaged people and communities.

1.2 PROBLEM DEFINITION

Since 1994, there have been various initiatives that this study will explore which have been proposed through various policies and legislation by the government to develop black enterprises. There seems to be very little impact that is made as 88 percent of the companies registered on the CIDB registration are in grade 1. According to the CIDB (2015), the figure is increasing: in 2007, Grade 1 contractors comprised 80% of the total registered cidb contractors, and by July 2015 this percentage had risen to 88% of the active registered contractors. Grade one makes reference to the entry level of a construction participation with a maximum contract that can be awarded to the value of R 200 000.

This also indicates that with all the interventions that are being made, black owned companies have not been able to grow and be sustainable entities but rather continue to be in the SMME category. The problem points at the formation of the preferential procurement policies and legislation and the ability to meet its intended objectives. With reference to the lack of development and growth of the lower grade contractors as mentioned in the CIDB (2015). In a country that seeks to advance black economic empowerment the lack of progress, stagnancy, entity growth and development that characterises Black SME's poses a huge challenge for poverty reduction

The lack of progression and development among black owned smme's will further entrench the marginalisation of black people and suppress their participation in the economy. This further increases the unemployment and poverty levels among black people due to the lack of real economic opportunities that would enhance their economic growth and development.

This study will examine the state of SMME's in the construction sector and assess the impact of the preferential procurement policies and legislation in relation to its objectives and expectations. This will provide more clarity on what effective measures can be undertaken to ensure the development of SMME's. The problem statement can be summarised as follows:

1.3 RESEARCH OBJECTIVES AND QUESTIONS

In understanding the role of public preferential procurement policy and legislation on black owned construction smme's in South Africa, this study seeks to address the following research objective:

1. Understand the development trajectory and challenges faced by black owned construction smme entities with regards to the Public preferential procurement policies and legislation in South Africa.

In fulfilling the research objective, the following research question is posed:

1. What is the state of the development trajectory and what challenges do the black owned construction smme's face as a result of the implementation of the preferential procurement Policies?

1.4 ORGANISATION OF THE STUDY

The Study will unfold in the following sequence:

Chapter 2

This chapter will cover the literature review focusing on the aspects of public preferential procurement and its objectives. The literature will also cover the legislation and its implications. The participation of SMME in the economy and their status in terms of growth and sustainability. Literature around the government's use of its own state contracts will also be examined. Experience on the role of Public procurement and the development of smme's from an international perspective and experience will be examined.

Chapter 3

This chapter will cover the research approach and strategy capturing how the primary and secondary data will be collected interpreted and presented.

Chapter 4

This chapter covers the interpretation of the data that has been collected and presents the main outcomes of the material and the data that has been analysed.

Chapter 5

This chapter draws a conclusion on the information that has been interpreted and makes recommendations. This will also include making reference of the outcomes of the information that has been gathered in relation to the current literature that is available.

CHAPTER 2

LITERATURE REVIEW

2.0 INTRODUCTION

The objective of this chapter is to examine the literature on the role of public procurement on black owned SMMEs and their development. South African history of apartheid has resulted in the exclusion of black enterprises from the mainstream economy. The use of affirmative procurement policies has been one of the ways identified to ensure inclusion of black SMME's. The role of SMMEs in the economy is considered, looking at the impact that SMMEs would have on economic growth and development. The development of SMMEs includes the ability of the SMMEs to develop into larger entities and have a more significant impact on economic growth and development including employment creation and poverty reduction.

With government expenditure on goods and services being a budget allocation on the fiscus this chapter looks into the expenditure and its impact on the development of SMME firms. With one of South Africa's government objectives being to redress the economic imbalances of the past, the use of black SMMEs become critical in ensuring the success of this objective. This chapter focuses on making critical observations on the success that government policies will have in achieving this objective. The procurement of goods and services and the impact thereof will be analysed to assess its impact and contribution on black SMMEs. The role of government on economic growth is examined in relation to the development of SMMEs and having the socio-economic objectives.

Literature pertaining to the affirmative procurement in support of small medium entities will also be examined in this chapter. With one of South Africa's government objectives being to redress the economic imbalances of the past, the focus is to review the literature on the international practices and its success in developing small medium enterprises. Affirmative procurement policies in Ghana, Malaysia, SADAC countries are dealt with in this chapter.

The review of the procurement legislation is examined in this chapter. The chapter looks at the overall applicable legislation to procurement. A critical view is taken on the procurement legislation to establish if it is a hinderance or support to the development of the SMMEs. The use of public procurement policies ability to develop SMME's in South Africa. The literature covers the existing literature that pertains to the study that is being conducted. A critical analysis of the existing literature is covered in this section of the proposal

The literature covered in this chapter will make emphasis and focus on the black owned smme's within the construction industry. The understanding and the determination of whether the black owned SMMEs are making progress in relation to other SMMEs is critical when the country is orientated towards the uplifting of the previously or black people in South Africa. The Construction Industry Development Board keeps a registration of contractors who are eligible to do work in the public sector and becomes an important source when doing an analysis of the state of the industry with regards to the development of black owned smme's as will be detailed in the chapter.

2.1 OVERVIEW OF SMALL MEDIUM ENTERPRISES

Since 1994, South Africa has been faced with the challenges of re-integration into world markets as a global economy, while at the same time positioning itself to realise the high expectations of its populace regarding a successful transition towards a more democratic order. To achieve the objectives of economic growth through competitiveness on the one hand, and employment generation and income redistribution as a result of this growth on the other, South Africa's small-, micro- and medium-sized enterprise (SMME) economy has been actively promoted since 1995 (Berry *et al.*, 2002). In South Africa, the formation of SMMEs has been viewed as a critical factor in assisting with economic growth and addressing the economic imbalances of the past.

The small medium and micro enterprises play a critical role in the economy of the country. Small enterprises contribute to the economy and play a pivotal role in job creation. Berry et al (2002) argue that the role of SMME in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMMEs.

According to Shakantu (2007), SMMEs play an important role in any economy. The promotion of SMMEs is a critical component of the South African governments strategy to create employment opportunities, redistributable resources and foster economic growth. SMMEs provide a vehicle through which most of the underprivileged South Africans, who lack financial resources and skills, can typically gain access to economic opportunities (Qualmann, 2000).

The literature will focus on the implementation of procurement system in south Africa. The implementation of the policies and the impact on SMME will be a significant part of this study. Berry et al. (2002) also identified the important role that SMME play as they consider the contribution that governments can do directly to ensure better access by SMMEs to product markets if demand is a constraint because of concentration in product markets. This makes the government intervention to be a crucial in ensuring the development of the SMME in South Africa.

Meud (1999) argues that the critical factor in determining the positive contribution SMME's are able to make on poverty reduction, especially by the micro and informal enterprises, is the policy and support environment offered by the local and national governments. Policy support and a less hostile attitude of local governments can allow greater informal income and livelihood opportunities and thus make the lives of the poor a little less poor. A comparison of international experience would be vital to asses and compare the issues being addressed in south Africa and how they were dressed in other parts of the world. Whilst Apartheid was not a policy in other countries however marginalisation and economic exclusion of other groups was a reality. The international experience will be a focal point for this study.

It is evident that an SMME strategy will undoubtedly contribute to redressing severe inequalities inherited from the apartheid period in terms of patterns of economic ownership. In the case of tourism sector, the arguments for promoting SMME development, especially of black entrepreneurs, are strongly tied to the objectives of transformation and black economic empowerment (Rogerson, 2004). With various policies and legislation being applicable to the procurement of state goods and services, the impact of the legislation will be vital. The affirmative action legislation should support the economic inclusion of the marginalised sections of society and a

look at whether the legislation brings to reality the development objectives of black SMMEs.

In the 1995, the White Paper on National Strategy for Development and Promotion of Small Business in South Africa (DTI, 1995), the government assigns the SMME sector a key role in South Africa's socio-economic transition. In particular, SMMEs are seen as a vehicle to:

- address the problem of high unemployment levels in South Africa as they have a high labor-absorptive capacity,
- activate domestic competition by creating market niches in which they grow until they identify a new niche as a response to demand changes, and to be internationally competitive because of their flexibility
- redress the inequalities inherited from the Apartheid period--in terms of patterns of economic ownership and restricted career opportunities for black employees.
- contribute to black economic empowerment-- in that the majority of SMMEs is reported to be initiated, owned or controlled by those members of society who were discriminated against in South Africa's past; and,
- play a crucial role in peoples' efforts to meet basic needs in the absence of social support systems during restructuring processes - which refers in particular to South Africa's micro-enterprise segment and especially survivalist activities characterized by low entry barriers for inexperienced job seekers.

According to Ndlovu, Makgetla, Fotoyi, and Levin (2017), formal small businesses generated the bulk of wage employment. In 2015 in the private sector, formal companies with 20 to 49 workers accounted for 17% of wage employment; very small formal businesses with five to 19 workers for 22%; and formal self-employment contributed 2%. Informal microenterprises contributed only 9% of the total.

(Ayyagari, Beck and Demirgüç-Kunt, 2007) consider countries with a higher level of GDP per capita have larger SME sectors in terms of their contribution to total employment and GDP. However, it is also interesting to note that the overall contribution of small firms – formal and informal - remain about the same across income groups. As income increases, the share of the informal sector decreases and that of the formal SME sector increases. The paper also suggests that a variety of macro-economic variables and historical determinants show significant correlations with the relative importance of the SME and informal sectors.

The OECD (Organisation for Economic Cooperation and Development) estimates that small and medium enterprises account for 90% of firms and employ 63% of the workforce in the world (Berisha and Pula, 2015). This further emphasises the significant participation and importance of the SME towards Jobs.

Ardic, Mylenko, and Saltane (2011) make consideration of the fact that the world economies are recovering from the financial crisis of 2008-9, many economies urgently need to create employment opportunities for their citizens. In this respect, creation and growth of SMEs is an important item on the policy agenda due to evidence that points to significant contributions by SMEs to employment.

According to Nieman (2006), SMMEs in South Africa have become an important focus for policy makers because: The labour-absorptive capacity of the small business sector is higher than that of other size classes. The average capital cost of a job created in the SMME sector is lower than in the big business sector. They allow for more competitive markets .They can adapt more rapidly than larger organisations to changing preferences and trends. They often use local resources. They provide opportunities for aspiring entrepreneurs, especially those who are unemployed, under-employed or retrenched . Workers at the smaller end of the scale often require limited or no skills or training; they learn on the job. Subcontracting by large enterprises to SMMEs lends fertility to production processes. They play a vital role in technical and other innovations.

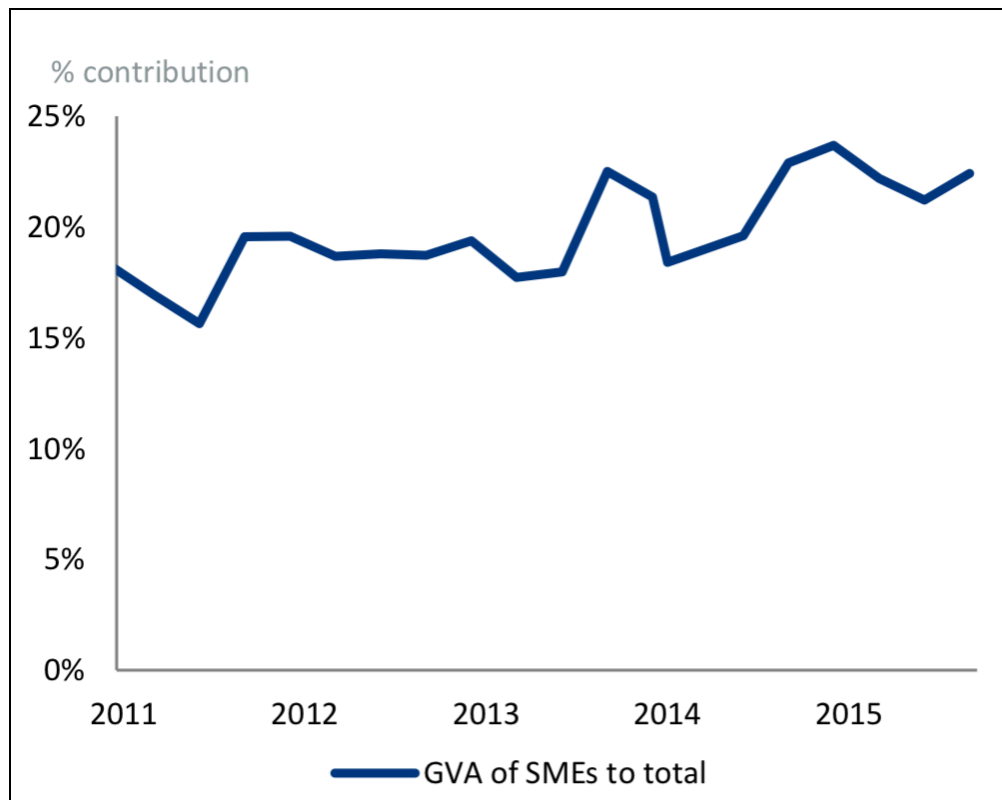


Fig 2.1 GVA of SME's

The gross value added (GVA = GDP before taxes and subsidies) is the sum of all wages, net operating surplus (NOS) and consumption of fixed capital. From the QFS data we can derive a proxy for the GVA of SMEs by summing the combined salaries paid, profits and depreciation, respectively. From this aggregate we can derive that SMEs contributed 18% to GVA in 2010Q4, and their contribution increased to 22% by 2015Q2 (SEDA, 2016).

SEDA (2016) continues to explain that the growth in the number of SMMEs from 2008 to 2015 was lower than the economic growth rate. However, the contribution of SMMEs to GVA increased over the same period. Most SMMEs still operate in the informal sector. Provinces with larger economies tend to have the largest share of formal SMMEs. Though whites still own the largest portion of formal SMMEs, their share has declined. While the level of education of SMME owners improved during the last seven years, it did not seem to boost the number providing professional services.

In South Africa, it is estimated that 90% of all formal businesses are small, medium or micro enterprises (Rwigema and Karungu, 1999). The SME sector is one of the largest contributors to the South African economy.

Governments worldwide have assisted SMMEs for various reasons, for example: SMMEs have shown a remarkable capacity to absorb labour, albeit largely unskilled. SMME's are usually locally owned and controlled, and can strengthen the extended family and cultural traditions. In South Africa, where non-whites were historically discouraged from owning businesses, the first attempts are likely to be informal, small, micro or medium. SMMEs provide a 'nursery' and a proving ground for entrepreneurship and innovation. The products of SMMEs tend to reflect local technology and are arguably more likely to satisfy the needs of poor people than are the products of large enterprises and foreign technology. For instance, investigations into the demand for soap in Bangladesh, shoes in Ghana, furniture in Kenya and bicycles in Malaysia have suggested a tendency for local products, produced in small units using labour-intensive equipment, to be more appropriate for the needs of poorer people. (Harper, 1984)

(Agupusi, 2007) reports that since 1994, South Africa has been promoting small business as an engine for economic growth and socio-economic integration. More recently, due to the growth of unemployment, there has been a renewed focus on the promotion of SMMEs. This is from both the government and the private sector. They are not simply focusing on SMMEs as an engine for growth, but more importantly as the key to job creation and poverty reduction.

The role of SMMEs in the development of South Africa cannot be overlooked for SMMEs contribute significantly in employment creation as well as to the GDP of this country. It is now clear that SMMEs play a critical role in the nation especially in helping achieving socio-economic goals of employment creation, economic growth and equitable distribution of wealth. SMMEs also play a role in reducing poverty in the nation through the provision of goods and services (Chimucheka, 2013).

During 1994–2003, the government's focus on the SMME economy derived from a conceptualisation of at least three key roles for SMMEs in reconstruction. These relate

to SMMEs as agents of employment promotion, redistribution, and the improvement in global competitiveness (Rogerson and Rogerson, 2017).

It is clear that the contribution of SMMEs to national employment growth remains low. First, whilst there exists a large and growing number of SMMEs, structural problems need to be acknowledged in terms of the fact that 'the majority of these enterprises are not functionally integrated into modern production structures. The essential structural problem is that rather than 'complementing larger enterprises with specialised products and services or with a certain function upstream or downstream of the production chain, like in other developing economies, South African SMMEs try to compete with larger enterprises in the same product markets, possibly for somewhat different consumer groups (QUALMANN, 2000).

Looking at the development of smme's in south Africa the Construction Industry Development board of south Africa which has been tasked to regulate the construction industry becomes an important starting point in understanding the role of preferential public procurement. As an overview table 2.1 gives a snap shot of the state of the industry with regards to the numbers of contractors and their level of development within the industry .

Table 2.1 CIDB GRADING ANALYSIS.

| DESIGNATION | CE | EB | EP | GB | ME | SW | TOTAL | % of TOTAL |
|--------------|---------------|--------------|--------------|---------------|--------------|---------------|----------------|----------------|
| Grade 1 | 24 774 | 1 659 | 6 018 | 54 053 | 5 996 | 20 274 | 112 774 | 88,36% |
| Grade 2 | 1 586 | 159 | 169 | 2 120 | 311 | 599 | 4 944 | 3,87% |
| Grade 3 | 899 | 56 | 95 | 595 | 112 | 196 | 1 953 | 1,53% |
| Grade 4 | 907 | 105 | 237 | 845 | 176 | 194 | 2 464 | 1,93% |
| Grade 5 | 681 | 118 | 216 | 584 | 158 | 184 | 1 941 | 1,52% |
| Grade 6 | 787 | 63 | 181 | 676 | 142 | 104 | 1 953 | 1,53% |
| Grade 7 | 433 | 42 | 82 | 330 | 60 | 57 | 1 004 | 0,79% |
| Grade 8 | 152 | 11 | 35 | 121 | 39 | 38 | 396 | 0,31% |
| Grade 9 | 74 | 2 | 26 | 47 | 31 | 24 | 204 | 0,16% |
| Total | 30 293 | 2 215 | 7 059 | 59 371 | 7 025 | 21 670 | 127 633 | 100,00% |

Source (CIDB, 2015)

The table above clearly depicts a disturbing picture where in all the categories of construction, 88% of the registered entities are in the lowest grade, and only 4.73 % of the contractors are in the higher grades between grade 5 and 9 on the register. It's also disturbing to note that the higher grades 7,8 and 9 are less than 1 %. This depicts a lack of progress in ensuring that there is development of the lower grades to the higher grades.

Upon making the full assessment of the impact of the policies a critical approach on the limitations of the policy and the development of SMME becomes important. This will thus lead to the amendment of the policies or enhancement of the policies to enable the achievement of the desired result with regards to the development of the SMME. With the policies having been implemented for a number of years, this study will be able to determine the success and shortcomings of the current policies and identifying what needs to be done to ensure greater and more positive impact on the development of the black SMMEs in south Africa .This study will make contributions on the appropriate changes that need to be made to the policy so as to be more effective.

The importance of this study will lead to the establishment of creating a developmental procurement system that will focus on the growth of small medium and micro enterprise that would contribute to job creation and economic growth.

2.2 PUBLIC PROCURMEMNT LEGISLATION AND SMME DEVELOPMENT POLICIES IN SOUTH AFRICA

South Africa has embarked on a major socio-economic transformation over the last 12 years to achieve social equality and overcome the legacy of racial discrimination against the black majority left by the apartheid regime. Economic transformation, which has been pursued through a broad institutional framework, has led to the emergence of a visible black middle class in the country over the last decade. Nevertheless, change has been limited, and the great majority of black South Africans still remain marginalized – demonstrating that major improvements need to be made if significant transformation is to be achieved (Sanchez, 2006). South Africa's public sector facility is envisaged as one of the new tools to remedy the injustices in that country in which blacks were disadvantaged. Section 217 of the country's constitution makes express provision for a procurement policy providing for the preferential allocation of contracts and the advancement of certain persons when procuring goods , works or services (Migiro, 1995)

The two main characteristics of government procurement markets that differentiate them from other goods/ services markets are their low contestability and prevalence of the principle-agent problem. Low contestability and the principal-agent problem in government procurement markets necessitate strict monitoring and regulation and further highlights the difficulties relating to effective regulation, and monitoring that have led to a situation of high levels of corruption in government contracts (Issn, 2017).

According to Wittig (2002), public procurement remains a big part of the economy of developing countries, accounting for an estimated 9-13% of their gross domestic product. Nevertheless, it is an area in need of attention since resources are not being properly managed in many countries Governments at all levels procure goods and services to serve their internal day-to-day organizational functions. In other cases, public agencies procure services that impact the public economic and environmental sphere directly and are drawn from beyond their "in-house" resources such as

contracting private builders to construct public works projects. As such, the overarching goal of procurement is “to obtain the most appropriate and highest quality good or service possible for the least cost” (McCue and Gianakis, 2001).

Governments are regarded as the custodians for regulating market participants, sometimes encouraging markets through competition law, or restraining them through minimum wage laws. But governments also increasingly play a role as active participants in the market itself, purchasing public works, supplies, and services. The particular issue that is the focus of this article is how government attempts to combine these two functions: participating in the market as purchaser and at the same time regulating it through the use of its purchasing power to advance conceptions of social justice (McCruden, 2004).

In a study and survey conducted by Hanks, Sustainability, Davies, and Perera (2008), the emphasis placed on the identified criteria differed: while some interviewees considered the Preferential Procurement Policy (PPP) and Black Economic Empowerment (BEE) the key factor in procurement decisions, the majority emphasised price and value-for-money as key criterion. A number of interviewees referred to the 80/20 or 90/10 rule for public procurement, that, depending on the value of the contract, allocates 80 or 90 evaluation points for price, quality and functionality, and 20 or 10 points for the supplier’s Preferential Procurement compliance. It should be noted that some officials, including a Treasury official, incorrectly thought that the allocation of the 80 or 90 points was based solely on one criterion, price.

The estimate for 2011 indicates that the government procurement of South Africa accounts for R267 billion or 9 per cent of its GDP. This ratio estimated over time indicates that government procurement has been steadily increasing from a level of 5.2 per cent in 2005. However, it continues to be much lower than the ratio of developed countries. Looking at the composition of government procurement, the bulk of the expenditure can be classified as final consumption expenditure, but fixed investments are still significant at over 20 per cent. This has remained more or less consistent over the period of analysis except for the spike in fixed investments in the years preceding the 2010 FIFA World Cup hosted by South Africa. During these years the government had intervened in a big way in infrastructural development, resulting

in the share of fixed investments going up to over 30 per cent of total government procurement. (Issn, 2017).

(Rogerson and Rogerson, 2017) identifies the marginalization of micro enterprises by noting that the existing government SMME programmes have largely been biased towards the group of medium and small-sized enterprises and, to a large extent, have by-passed microenterprises and the informal economy. Current public sector preferential procurement policies have evolved in an environment of legal constraints in which procurement spending targeting MBEs has often been viewed as reverse discrimination. The objective of achieving a “level playing field” was adopted in response to this legal environment. Preferential procurement policies often miss their objectives, achieving outcomes such as minimal assistance to MBEs and negligible local economic development impacts (Bates, 2009).

Public sector procurement, if used as an instrument of policy, can, because of its size, have a significant impact on the economy as a whole. For example, procurement by public bodies and nationalized industries in the United Kingdom in 1984 was found to account for approximately 22% of Gross Domestic Product⁸; a recent study conducted in the European Union revealed that civil public procurement in the public sector and certain major utilities accounts for about 11% of EU Gross Domestic Product⁹; and public sector procurement (national and provincial departments and local authorities only) in a developing country such as South Africa was found in 1996 to be 13% of Gross Domestic Product¹⁰ (Watermeyer, 2000).

(Watermeyer, 2000) Procurement may be used to achieve, in addition to obtaining the required goods and services. :

- to stimulate economic activity;
- to protect national industry against foreign competition; to improve the competitiveness of certain industrial sectors; to remedy regional disparities;
- to achieve certain more directly social policy functions such as to foster the creation of jobs, to promote fair labor conditions, to promote the use of local labor, to prohibit discrimination against minority groups, to improve environmental quality, to encourage equality of opportunity between men and women, or to promote the increased utilization of the disabled in employment.

Targeted Procurement was developed in South Africa, where procurement is regulated by that country's constitution.¹⁵ As a result, Targeted Procurement enables socio-economic objectives to be achieved in a fair, equitable, transparent, competitive and cost-effective manner. Targeted Procurement, without resorting to set asides and being prescriptive, enables procurement to be readily used as an instrument of social policy by public bodies both on a large scale and in a focused manner. This it does without compromising the aforementioned requirements for a cost effective and practical procurement system.(Watermeyer, 2000)

The (CIDB, 2006) of South Africa highlights the following development and social objectives to be achieved from construction projects: (i) SMME development;(ii) HIV-AIDS; (iii) training and skills transfer; (iv) broad-based black economic empowerment; (v) job creation; (vi) local economic development; (vii) poverty alleviation; and (viii) construction industry development.

In a survey conducted by (Migiro, 1995) it was concluded that with regards to preferential procurement, 49 percent of the respondents agreed with the claim that this had caused extra financial burden to the Departments. This notwithstanding, 47 percent of the respondents agreed that all procurement is preferential as BEE SMEs in the supply chain are given preference in the allocation of tenders. Nonetheless, preferential procurement is not possible where specialised skills for manufacturing, assembly, installation and guarantee are required (47 -percent). Thirty-nine (39) percent of the respondents were however of the view that different preferential objectives should be applied in the allocation of tenders. (Migiro, 1995).

Equitableness, in our interpretation, is applied when equal shares (equal treatment on a numerical basis) are not fair. It is about allocation. In South Africa, certain groups were placed at a disadvantage by apartheid, for instance by means of government policies that under-funded black primary and secondary education. Many black contractors are falling with in this category . Therefore, it is fair (just, or equitable in our terminology) to give them an advantage in the tender process at this stage of the history of South Africa. Note that this is a right given to a group of people. (Should the current preferential procurement policies be carried on for decades, the situation might be seen as unfair and will have to be reversed.) (Pauw and Wolvaardt, 2009)

In 1997 under the public sector (Ministry of Finance and Ministry of Public Works, 1997) procurement green paper a clear acknowledgment of the involvement of SMME and the participation was highlighted . Reform The aim of the review process is to develop a national procurement system that promotes the principles of the Reconstruction and Development Programme and government's policies relating to socioeconomic objectives. Emphasis is placed on the facilitation of easy access for small, medium and micro enterprises, particularly those owned and controlled by previously disadvantaged persons, into the mainstream procurement activities funded by the Public Sector.

Table 2.2 Pillars of Procurement Reform

| : Pillars of procurement reform in respect of socio-economic issues | |
|---|--|
| (i) | Public sector procurement should be structured in a manner that promotes economic reconciliation and competitiveness. |
| (ii) | The structuring of contracts should be such that small, medium and micro enterprise participation is maximized without compromising time, cost and quality. |
| (iii) | Value for money should not be based on least cost alone; it can include well defines socio-economic criteria which can be evaluated in a transparent and measurable manner. |
| (iv) | <p>Targets should be set and delivery systems designed to facilitate one or more of the following subjects to such targets being readily definable, quantifiable, measurable, auditable and verifiable:</p> <ul style="list-style-type: none"> ▪ The development of small, medium and micro enterprises particularly those owned and operated by previously disadvantaged persons; ▪ Increasing of the volume of work available to the poor and the income generation of marginalized sectors of society; and affirmative action to address the deliberate marginalization from economic, political and social power of black people, women and rural communities and to empower communities and individuals from previously disadvantaged sectors of society. |
| (v) | The procurement process should be made accessible to the target groups and structured in a simplified and user friendly manner. |
| (vi) | The third tier of government should identify area bound targets and select associated delivery mechanisms. |
| (vii) | Organs of State should take cognisance of regional and local dynamics when implementing procurement policy and associated practices. |

Source (Letchmiah, 2012)

The above table has been summarised from the 1997 green paper focusing on the issues that the procurement reforms green paper had highlighted. From the above summary it can be deduced that the participation of SMEs was crucial in the procurement reform revealing the importance in ensuring SMME growth in South Africa. According to a survey done by (Harmond and Manchidi, 2002) the measures for helping ABEs achieve the Targeted Procurement objectives included the following

- The availability of credit facilities and financing
- The need for technical and managerial training, especially through mentoring Allocating projects exclusively to ABEs to aid the transition from emerging to fully fledged contractors.
- Monitoring contracts to ensure that only responsible ABEs are selected Having more TP contracts. From this survey the results show that the emphasis is on targeted Procurement for development of the SME is still limited and thus not yielding the required rate of growth and sustainability.

In South Africa Section 217 of the Constitution outlines the legislation around the procurement of goods and services. (Anthony, 2013) this section of the constitution as follows. Section 217(1) of the Constitution provides that when contracting for goods or services, organs of state in the national, provincial or local sphere of government or institutions identified in national legislation must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective. Section 217(2) provides for the use of procurement as a policy tool. This provision states that subsection (1) does not prevent organs of state or institutions in subsection (1) from implementing procurement policies providing for categories of preference in the allocation of contracts and the protection or advancement of persons, or categories of persons disadvantaged by unfair discrimination. Section 217(3) prescribes a national legislative framework to be enacted in terms of which preferential procurement policies as contemplated in subsection (2) are to be implemented. What is significant about this section of the constitution is the advancement of persons that were previously disadvantaged which the constitution recognises and acknowledges.

The preferential procurement policy act no 5 of 2000 in line with the constitutions prescribes the legislative framework that puts into effect the preferential procurement

process for the state and state organs. The PPPFA Act 5 of 2000 outlines the regulations on which the Act is to be implemented. (National Treasury, 2017) in a presentation summarises the introduction of the regulations and its amendments since 2001 as follows, the PPPFA introduced the 80/20 and 90/10 preference points system, which should not have been included in the Act, as it limited the allocation of preference points, and any amendments envisaged could only be effected by a change in legislation.

The PPPFA regulations of 2001 gave organs of state to whom the Act applied the discretion to prefer targeted groups (i.e. allocate bonus points to certain categories of persons). The PPPFA regulations of 2011 introduced the B-BBEE scorecard, which inhibited the targeting of certain groups, and instead focused on broad-based black economic empowerment.

According to (Rooyen, 2017) the significant highlights of the 2017 Preferential procurement regulations include introducing the prequalification criteria, which allows the advancement of the selected categories of people, by limiting competition to only amongst themselves. This restricts the inclusion of well established companies and promotes for the inclusion of previously disadvantaged persons, unless they meet further requirements of subcontracting to these groups then the established company could be successful. High value tenders in the region of R30 million and above have a tendency to be awarded to established companies, due to economies of scale and affordability, leaving out categories of aspiring businesses. The revised regulations require all those, with the ability to deliver the required service, to demonstrate the element of subcontracting to the categorised groups at a tendering stage. Addressing the outcry of the categorised groups, who felt that the threshold of R1 million is too insignificant has also been accommodated in these regulations. Current regulations have increased to R50 million the value for tenders that will fall under the 80 percent points allocation for price.. This now gives smaller companies a greater chance to compete in the economy, in a meaningful way.

(Sedumedi, 2017) considers the 2017 Preferential regulations to go a long way to realise the dream of a more inclusive economy that benefits previously marginalized persons, the local economic development of certain underdeveloped communities and the development of small enterprises.

2.3 BROAD BASED BLACK ECONOMIC EMPOWERMENT ACT

The Broad Based Black economic empowerment (BBBEE Act 53 of 2003) was introduced to advance black people a generic term for Africans , colored and Indians who are south African citizens , and ensure their meaningful inclusion and participation in the economy which was limited since 1994 despite the political progress that had been made.(Bolton P, 2008)

According to (Essec, 2016) Black economic empowerment is defined as an integrated and coherent socio -economic process that directly contributes to the economic transformation of smme's in Africa and brings about significant increases in the number of black people who manage , own and control the country's economy ,as well as significant decreases in income inequalities. (Essec, 2016) further identifies the objectives of BEE to include substantial increase in the number of black people who have ownership and control of existing and new enterprises. Substantial increase in the number of black people who have ownership and control of existing and new enterprises in the priority sectors of the economy that government has identified in its microeconomic reform strategy. A significant increase in the number of new black enterprises, black-empowered enterprises and black-engendered enterprises. An increasing proportion of the ownership and management of economic activities vested in community and Increased ownership of land and other productive assets, improved access to infrastructure, increased acquisition of skills, and increased participation in productive economic activities in under-developed areas including the 13 nodal areas identified in the Urban Renewal Programme and the Integrated Sustainable Rural Development Programme. Accelerated and shared economic growth Increased income levels of black persons and a reduction of income inequalities between and within race groups.

In contrast to the positives on Black economic empowerment (Human, 2006) argues that the current manner in which BEE is implemented will not yield results. It should be implemented in a way to rather acknowledge the skills of all the races. The construction industry should implement a strategy to uplift skills development of people for all races and that affirmative action and Black Economic empowerment is only implemented for political reasons.

2.4 CONSTRUCTION DEVELOPMENT BOARD

The CIDB Act 38 of 2000 was gazetted in 2000 with the objective provide for the establishment of the Construction Industry Development Board which will implement an integrated strategy for the reconstruction, growth and development of the construction industry and to provide for matters connected therewith. (Republic of South Africa, 2000) The Mandate for the CIDB has been to ensure sustainable growth capacity development and empowerment within the construction sector. Its expanded mandate is to ensure a transformed industry, underpinned by consistent ethical procurement practices enhanced value to clients and society. The development of smme companies falls directly in line with the mandate of the CIDB.

2.5 SMME DEVELOPMENT POLICIES

The national Small Business Act (National Small Business Act, 1996) elaborates extensively in the different types of enterprises and their characteristics. (Sanchez, 2006) summarises these entities and identifies them as follows

Small enterprises: the upper limit in this category is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.

Micro enterprises: the turnover under this category is less than the VAT registration limit; these enterprises are not usually formally registered. They include, for example, spaza shops, minibus taxis and household industries. They employ no more than five people.

Medium enterprises: enterprises with a maximum of 100 employees, or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterized by an additional management layer. While keeping these gaps in mind, the SMME term is here used to identify the broad range of small and medium enterprises and the SME term is used when excluding the very small, micro and survivalist enterprises. Specific references to the different categories will be made when needed.

In South Africa, government recognises the importance of this segment of business activity, so much so that a new Ministry of Small Business Development was established in early 2014. The aim of the Ministry is to facilitate the promotion and development of small businesses. (SEDA, 2016) this ministry has come up with various interventions and policies to promote small business in South Africa.

(Van der Zee, K; Bhorat, H; Asmal, Z; L, 2018) considers the establishment of SMME policies to be crucial especially where it is clear that constraints differ according to SMME size, and within different sectors, policies to alleviate the constraints to growth should be carefully targeted and tailored. This supports focus through policies for the support of SMME.

It was noted that the National Small Business (NSB) Act provided guidelines for organs of state to promote small businesses, authorised the establishment of the National Small Business Advisory Council (NSBAC) and Small Enterprise Development Agency (SEDA), which, respectively, promoted the interests of small businesses, and advanced policies and supportive mechanisms.(DSBD, 2014)

The department of Small business development (DSBD, 2014) further details the following interventions to smme policiesⁱ The supporting structures for small, medium and micro enterprises and cooperatives are outlined and inclusive of the Small Enterprise Development Agency, which provided non-financial Support Services through its own offices and strategic partnerships. The SA Women Entrepreneurship Network providing for a national vehicle for individuals and groups of women to address their entrepreneurial challenges and also acting as an advocacy group. The SA National Apex Cooperatives is one of the tertiary cooperatives, but aspired to become a fourth-tier body, as the national apex cooperative.

2.6 CONCEPTUAL FRAMEWORK

Conceptual framework is a model or illustration of how one considers or makes logical sense of the relationships among the main factors or elements that have been identified in the research. (Grant and Osanloo, 2014) describe the theoretical framework as the “blueprint” for the entire dissertation inquiry, a guide on which to build and support your study and also provides the structure and analytical approach for the dissertation as a whole. Thus, the theoretical framework consists of the selected theory (or theories) that undergirds your thinking with regards to how you understand and plan to research your topic.

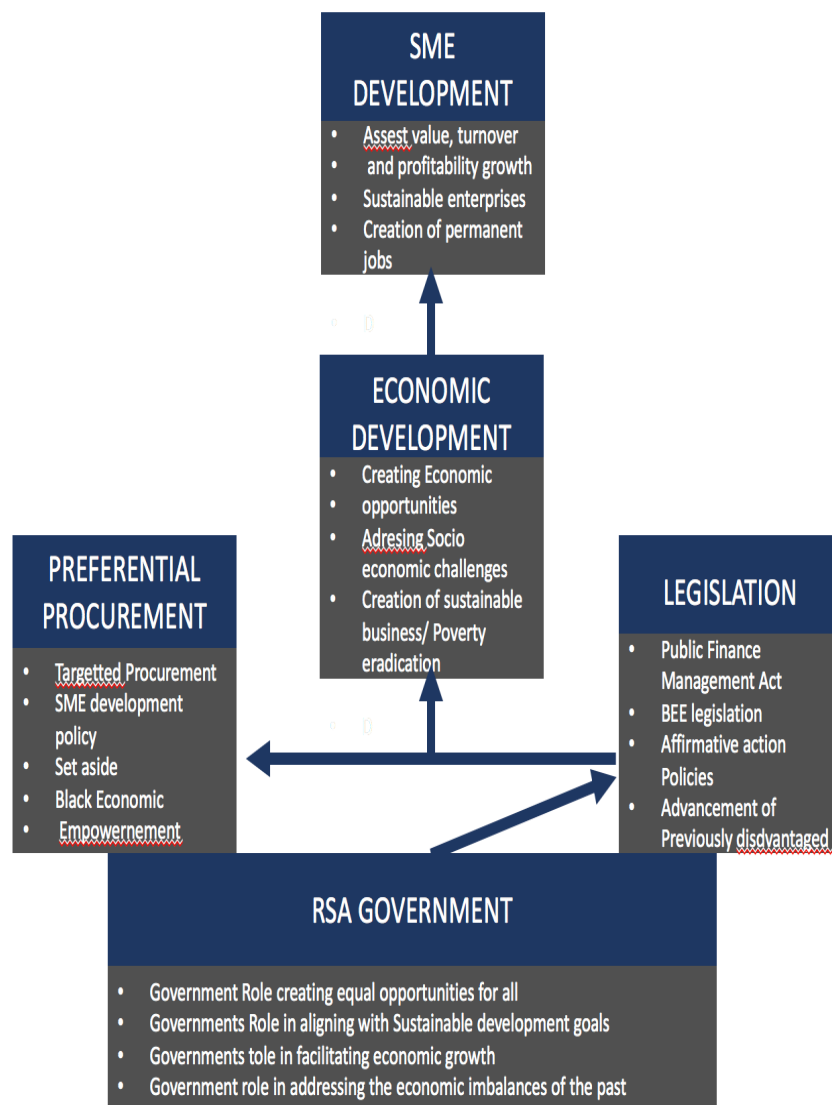


Fig 2.2 Conceptual framework

This study focuses on the policies and the legislation that has been adopted by the South African government . The government's as part of its role needs to ensure that there are fair opportunities for all races paying particular attention to economic benefits and jobs for all. Government through its policies on preferential procurement needs to ensure that black smme's are accruing the economic benefits and the growth financially and through experience and skills. Development of smme's also contributes to economic growth and creation of sustainable businesses and contributes towards the eradication of poverty within South Africa .

2.7 EMPIRICAL LITERATURE BASED ON INTERNATIONAL EXPERIENCE

2.7.1 United States of America

(Noon, 2018) Racial preferences in government procurement have played an important role around the world for nations with histories of racial oppression and discrimination. Government affirmative action programs have commonly been used to mitigate the inequities resulting from these oppressive legal regimes.

In the United States, recognition is made on Minority Business Enterprises . (Robinson, 1992) considers the adoption of affirmative action measures by the government to be remedial in nature. MBE programmes in the US owe their existence to the recognition by government that subsequent to the abolition of slavery , African - Americans were subjected to continuing racial discrimination and oppression. In the United states following the discrimination there was a need to use the preferential ,Affirmative action policies as a tool to settle the imbalances of the past even in business.

Whilst the need for preferential procurement policies /set asides are not disputed there needs to be a desire to ensure quality in the process. affirms this in stating that by the late 1970s, justifications for minority business set-asides were once again shifting, acquiring a more qualitative focus. At the Minority Business Development Agency (MBDA), for example, the goal of simply increasing numbers of firms was supplanted by the goal of creating and assisting more substantive firms, especially those having future growth potential .

In the United States there were various programs that were implemented and some were not successful and as (Bates, 2015) points out the successful preferential procurement programs not only encouraged MBE participation by introducing mandatory subcontracting requirements and the like; they downsized and unbundled contracts, paid MBE invoices promptly, screened out front firms, and selectively eased bonding and insurance requirements. These programs succeeded because they lowered traditional barriers limiting the size and scope of the minority business community. They succeeded because they created the less discriminatory environment that allowed talented entrepreneurs to create large firms capable of handling major procurement opportunities effectively.

In the United States, the debate on the success of the MBE programmes continues to be debated with contradicting studies on the subject. (Sweet, 2006) further confirms these diverse views in concluding that the empirical literature to date has mostly been replete with the limited prospects for MBE programmes, some studies have at least tentatively found a positive relationship between MBE programmes and the creation of minority business owners. And while this may offer a glimmer of hope for proponents of affirmative action in creating a new class of minority entrepreneurs, the payoffs for the other commonly perceived goals of MBE programmes are apparently minimal. Given such meagre returns on the political investment necessary to create and sustain such programming, it would seem that those who are concerned about a substantial transformation of minority economic conditions may be forced to direct their efforts elsewhere.

2.7.2 Malaysian Experience

The Malaysian experience and history is similar to the South African history in so far as the conditions pertaining to disadvantaged groups within Society. (McCrudden, 2004) identifies the issues in Malaysia to consist of the Indians and the Chinese became middle-men and increasingly dominated the economic life of the country. The indigenous Malays, who formed the majority, mostly dominated the independence movement. On independence, then, Malaysia was faced with attempting to deal with the situation of an economically disadvantaged political majority, and two minorities that were economically strong, but in a minority politically. This led to the incorporation into the independence Constitution a provision guaranteeing non-discrimination but also providing for the possibility of reservations in favour of the indigenous Malays (called bumiputeras, literally 'sons of the soil').

In addressing the imbalances of the past and promoting economic activity for the Bumiputeras majority preferential and affirmative action policies had to be implemented through the NEP in Malaysia. According to (Lee, 2005) the economic restructuring along ethnic lines was one of the two objectives of the New Economic Policy (NEP) which was implemented from 1971-90. A comprehensive system of ethnic preferential policies, programmes and instruments that benefited the Malay community were formulated and implemented.

Whilst the success of affirmative action policies is often debatable (Lee, 2005) is convinced of the success of the Malaysian affirmative action policies as he states Without any doubt, the implementation of ethnic preferential programmes and policies has helped to redress the underrepresentation of Malay participation in the economy, especially in the modern economic sector, and in tertiary education. The inequality gap between the Malays and Chinese has narrowed considerably and Malay equity ownership had reached more than 20 per cent by 1990. A growing Malay professional middle class and corporate and business community have emerged.

On the other hand (Affairs and Columbia, 2013) is clear that although there has been considerable success in achieving specific objectives with regards to reduction of poverty and interethnic wealth and occupational redistribution, interethnic tensions have worsened due to the implementation of the NEP. The NEP's means have become ends in themselves, while the NEP's ends have declined in significance as a policy of priority.

(Affairs and Columbia, 2013) further argues reduction of poverty has been largely due to economic growth, productivity increases and the exigencies of securing electoral support, rather than the government's poverty eradication measures per se. Increased government intervention and the growth of the public sector have also greatly increased rentier activity, recently increasingly dominated by leading politicians and those closely connected to them, as well as by economic waste and inefficiency more generally.

2.7.3 East Africa (Kenya, Uganda and Tanzania)

Kenya Uganda and Tanzania are countries in East Africa that have a similar history in so far as having been colonised. As (Odiambo, Walter.Kamau, 2003) correctly points out that the three East African countries share a common political and economic history that dates back to the colonial period. On attaining independence in the early 1960s, the three countries inherited almost similar economic and political institutions. With regards to Procurement the three countries have embarked on structuring the procurement system in line with the international guidelines.

In a report conducted by (University of Nairobi, 2009) there is an advocacy for the involvement of SME in Kenya, without imposing quotas, procuring entities should promote SME participation in public procurement by, making use of the possibility to conclude framework agreements with several SMEs not just a single supplier and taking advantage of the possibility for SMEs and groups of SMEs to prove their combined economic and financial standing and technical ability.

In the comparative table below the procurement reform process in all three countries has merely been structural and focused more on the development of a procurement system rather than having a preferential procurement system . Unlike South Africa with a similar colonial history these African countries have not used the procurement system to advance affirmative action policies. (Odiambo, Walter.Kamau, 2003) acknowledges that after decades of messy public procurement systems in the East African region, the three governments are now reforming the legal, organisational and institutional frameworks of public procurement.

Table 2.3. Characteristics of the Public Procurement System in East Africa

| | Kenya | Tanzania | Uganda |
|--|--|---|--|
| Legislative Framework | <ul style="list-style-type: none"> • The Exchequer and Audit (Public Procurement Regulations 2001 Legal Notice No. 51 • Public Procurement Bill (yet to be approved by Parliament) | <ul style="list-style-type: none"> • The Public Procurement and Finance Act (2001) | <ul style="list-style-type: none"> • The Public Procurement and Disposal of Public Assets Bill, 2002 (to be presented to Parliament) |
| Key Institutions | <ul style="list-style-type: none"> • Directorate of Public Procurement • Ministerial Tender Boards • Parastatal Tender Boards • Local Authority Tender Boards • The Public Procurement Appeals Board • The Ministry of Finance | <ul style="list-style-type: none"> • The Central Tender Board • Ministerial Tender Boards • Regional Tender Boards • District Tender Boards • Parastatal Tender Boards • Local Authority Tender Boards • The Procurement Appeals Authority | <ul style="list-style-type: none"> • The Public Procurement and Disposal of Public Assets Authority / The Central Tender Board • The Procuring and Disposing Entities- Accounting Officers, Contract Committees, Procurement and Disposal Unit • Third Party Procurement Entities (e.g. SWIPCO) |
| Anti- Corruption Initiative | <ul style="list-style-type: none"> • Establishment of an Anti-Corruption Agency (Police Units) | <ul style="list-style-type: none"> • Tanzania Anti-Corruption Authority | <ul style="list-style-type: none"> • Ministry of Ethics and Integrity |
| Types of Procurement Threshold | <ul style="list-style-type: none"> • Minimum | <ul style="list-style-type: none"> • Maximum and Minimum | <ul style="list-style-type: none"> • Minimum |
| Preferential Treatment of Local Bidders | <ul style="list-style-type: none"> • No Explicit Preference | <ul style="list-style-type: none"> • No Explicit Preference | <ul style="list-style-type: none"> • No Explicit Preference |

Source: (Odiambo, Walter.Kamau, 2003)

From table 2.2 it is clear that the preferential procurement and the development of SME has not been high on the agenda of these African countries

The literature covers the existing literature that pertains to the study that is being conducted. A critical analysis of the existing literature is covered in this section of the proposal

The small medium and micro enterprises play a critical role in the economy of the country. Small enterprises contribute to the economy and play a pivotal role in job creation. Berry et al (2002) argue that the role of SMME in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMMEs.

According to Shakantu (2007), SMMEs play an important role in any economy. The promotion of SMMEs is a critical component of the South African governments strategy to create employment opportunities, redistributable resources and foster economic growth. SMMEs provide a vehicle through which most of the underprivileged South Africans, who lack financial resources and skills, can typically gain access to economic opportunities (Qualmann, 2000).

The literature will focus on the implementation of procurement system in South Africa. The implementation of the policies and the impact on SMME will be a significant part of this study. Berry et al. (2002) also identified the important role that SMME play as they consider the contribution that governments can do directly to ensure better access by SMMEs to product markets if demand is a constraint because of concentration in product markets. This makes the government intervention to be a critical in ensuring the development of the SMME in South Africa.

Meud (1999) argues that the critical factor in determining the positive contribution SMME's are able to make on poverty reduction, especially by the micro and informal enterprises, is the policy and support environment offered by the local and national governments. Policy support and a less hostile attitude of local governments can allow greater informal income and livelihood opportunities and thus make the lives of the poor a little less poor. A comparison of international experience would be vital to asses and compare the issues being addressed in South Africa and how they were dressed

in other parts of the world. Whilst Apartheid was not a policy in other countries however marginalisation and economic exclusion of other groups was a reality. The international experience will be a focal point for this study.

It is evident that an SMME strategy will undoubtedly contribute to redressing severe inequalities inherited from the apartheid period in terms of patterns of economic ownership. In the case of tourism sector, the arguments for promoting SMME development, especially of black entrepreneurs, are strongly tied to the objectives of transformation and black economic empowerment (Rogerson, 2004). With various policies and legislation being applicable to the procurement of state goods and services, the impact of the legislation will be vital. The affirmative action legislation should support the economic inclusion of the marginalised sections of society and a look at whether the legislation brings to reality the development objectives of black SMME's.

According to (Kuugongelwa and Bolton, 2015) In Namibia the current Act makes no mention of reservations or the setting aside of certain tenders for SMEs. This has resulted in open tendering method being viewed as an obstacle in achieving some of the socio-economic objectives of the Namibian government such as reducing the unemployment rate through entrepreneurship, especially amongst people from previously disadvantaged communities.

Namibia over the years has not focused and emphasised the inclusion of SME in their procurement policies. (Amoo and Dicken, 2009) notes the intervention required and points out that In this regard, it has been recognised that the current system of price preferences in the Tender Board Act in Namibia is not favourable to the small and medium-sized enterprise (SME) sector, and therefore the Bill aims to give preference to tender bids by SMEs and previously disadvantaged groups, including youth and women.

In Ghana preferential procurement policies were introduced but do not seem to have brought about positive results . (Metropolitan, Elizabeth and Africa, 2017) concluded from the study that local contractors are still experiencing the same problems enumerated in the years before the introduction of preference policies in the procurement law. Contractors are still not provided with any support to make them

competitive in the tendering processes. This supports the notion that little development of SME,s has taken place in Ghana. In so far as the construction industry (Metropolitan, Elizabeth and Africa, 2017) continues to make a point that careful examination of the current procurement practices as stated in Act 663 revealed that there are inadequate protective mechanisms in favour of the local construction industry. (Laryea, 2010) also makes the point that most major projects in Ghana are awarded to foreign contractors and this necessitated a suggestion from the Association of Road Contractors Ghana to government that when a job is awarded to a foreign contractor, the firm should be encouraged to subcontract about 25 per cent of the work to local contractors with known capability.

(EL-Gayed, 2013) has reservations of the success of preferential policies forming part of public procurement as he considers the use of procurement as an instrument of policy, is not without controversy as questions have been raised regarding its legitimacy and effectiveness, as well as its negative impacts on primary procurement objectives. On the other hand (Govender and Watermeyer, 2001) consider the South African model for such interventions, namely Targeted Procurement, has potential applications in the SADC region for the development of construction enterprises owned and controlled by indigenous people. The inclusion of this sector in infrastructure projects could lead to growth in the local construction industry within the region, the reduction of reliance on foreign enterprises to provide much needed infrastructure and the increase in the amount of project costs retained in the country in which such projects are executed.

CHAPTER 3

METHODOLOGY

3.0 INTRODUCTION

This chapter outlines the research methods that were used for assessing the impact of public preferential procurement policy on the development of SMMEs in South Africa. It also includes the data collection and data analysis method which are covered in detail in this chapter. The primary focus of this chapter is to conduct what (Kothari, 2004) describes research methodology to be a way to systematically solve the research problem. The methodology will include for the treatment of data; description and the analysis of the collection of the information. The research approach for this study will be a qualitative approach seeking to investigate the understanding of the role of public procurement policies on the black owned construction SMME's.

3.1 RESEARCH DESIGN

This study is of importance and relevance as it makes an assessment of the preferential procurement policies and their impact on the development of black small and medium enterprises. With the South African history, it is vital to know that the issues of economic inclusion and emancipation is addressed in all sectors. An assessment of the public preferential procurement policy and its impact on the development and sustainability of the SMME is an integral part in achieving economic inclusion.

Creswell (1994) defines qualitative research as an analysis method of understanding centred round distinct procedural conducts of inquiry that explore a social or a human problem. Qualitative approach is used by researchers in order to form knowledge claims based on constructivist perspectives, referring to multiple meanings of individual experiences, meanings socially and historically constructed, with the aim of developing a theory or design (Creswell et al. 2016:53). Frankel and

Wallen (1990) state that qualitative research is descriptive in nature and is often preferred in the human sciences. Furthermore, Creswell (2016:53) states that researchers try to comprehend the background or context of the participants through visiting this setting and collecting the evidence personally. The overall aim of qualitative research is to study various social and cultural settings as well as individuals who dwell in these settings, thus gaining insight into their experiences, beliefs, values and characteristics thereby forming a comprehensive understanding into their behaviours (Du Plooy, 2001). (Frankel and Wallen,1990) points out that qualitative data is collected in the form of words or pictures rather than numbers, thus qualitative research yields descriptive narration. Qualitative researchers study subjects or concepts in their natural settings with the aim to understand and interpret the data based on what the participants bring (Denzin and Lincoln, 2000).

The data gathering method that is used in this study is qualitative through the use of semi-structured interviews and questionnaires to gain facts about the assessment of the impact of preferential procurement on the SMMEs. This study seeks to obtain the experience of smme contractors with the relevant preferential procurement policies on whether this has any impact on their development and growth .

(Forman *et al.*, 2008) have summarised a few points around the key features of a Qualitative Research design . These features include the establishing a goal that is discovery oriented and holistic to understand processes and question underlying assumptions for data collection that is open-ended. The research process is interactive and emerging and usually the sampling is purposeful. The data analysis is largely inductive and interpretive. The Validity is assessed through methodological and rigor, researcher experience and skill, and relevance. The findings are generalized to settings similar to those in the study. Findings are reported as themes.

3.2 JUSTIFICATION OF THE STUDY

This study is of importance and relevance as it makes an assessment of the preferential procurement policies and their impact on the development of black small and medium enterprises. With the South African history, it is vital to know that the issues of economic inclusion and emancipation is addressed in all sectors. An assessment of the public preferential procurement policy and its impact on the

development and sustainability of the SMME is an integral part in achieving economic inclusion.

3.3 SAMPLING

(Kothari, 2004) views sampling as the selection of some part of an aggregate or totality on the basis of which a judgement or inference about the aggregate or totality is made. In other words, it is the process of obtaining information about an entire population by examining only a part of it. This is important for the purpose of this research as there is a significant number of SME,s that would need to be assessed for the purpose of this research. According to (Forman *et al.*, 2008) cases in qualitative studies are selected for in-depth study because they are considered to be the best available, “information- rich,” and analytically useful sources for answering research questions.

(Palys, 2008) identifies purposive sampling signifies sampling as a series of strategic choices and objectives about with whom ,where and how one does ones research. This implies that the way that the research is sampled must be tied to the objectives of the study. Purposive sampling on the hand helps in understanding a theoretical framework. The purposive sampling technique, also called judgment sampling, is the deliberate choice of a participant due to the qualities the participant possesses. It is a non-random technique that does not need underlying theories or a set number of participants. Simply put, the researcher decides what needs to be known and sets out to find people who can and are willing to provide the information by virtue of knowledge or experience (Etikan, 2016)

Purposive sampling is the ideal method used in this study as it is a qualitative study, also the sample that is chosen, is specifically based on the knowledge and experience the participants have. The black SME will be the focus of this sample and taking particular attention to those that have experience in the construction and delivery of infrastructure projects . The sampling will assist in assessing the objective of whether the development has been achieved or not and this study will seek to sample those who have had experience in the industry and have seeked to develop and grow with in the sector.

3.4 DATA COLLECTION

Data collection is an important aspect of any type of research study. Inaccurate data collection can impact the result of a research study and ultimately lead to invalid results. In a research, data is collected from various sources and a variety of methods or techniques are used in its collection. (Kothari, 2004) Identifies two methods for data collection being primary data which is collected afresh and for the first time, and thus happen to be original in character. Secondary data, on the other hand, is data that has already been collected by someone else and which has already been passed through the statistical process.

Primary data is the specific information collected by the researcher and can be obtained from documentation and publications relevant to the study. Interviews with participants and through questionnaires will also provide the primary data for the research. Further to the primary data information that will be gathered there will be data that will be collected as secondary data which refers to the statistical material that is not originated by the researcher but obtained from someone else's records

3.4.1 Data required

In relation to the data required, a random sample of 30 black small medium and micro enterprises will be obtained from the database of the construction industry development board. The Construction industry board has a total population of 127 633 registered contractors. The focus will be on the category that suits the small medium and micro enterprises. Information on the database will be available on the ownership of the entities.

The legislation around the preferential procurement policy will be analysed. The impact of the legislation will be analysed and assessed against the impact it has on the development of the SMME. Public supply chain management policies will provide information on what the practical implication is when procurement is being affected. The supply chain management practices will provide further insight on the implementation of the policies and weather they meet the preferential procurement objectives.

Data from the employing, contracting departments and the SMMEs that contract with the government will provide further information on the impact that the development initiatives have on the SMMEs. The history of the operations will also provide information on the development and extent thereof.

3.4.2 Location of data

The various state departments will provide information on the SMMEs. This would include information on the policies that are to be employed by the state and the impact of the implementation. An assessment of the SMME development programmes that are currently being implemented by the state will also be assessed. The data will be collected from the smme's.

3.4.3 Questionnaires

(Pouline, Habimana, 2013) defines a questionnaire to be a data collection instrument consistent of a series of questions and other prompts for the purpose of gathering information from respondents. Questionnaires are typically used in survey situations, where the purpose is to collect data from a relatively large number of people. Often, but not always, the people from whom responses are collected are a sample drawn from a wider population, and are chosen to "represent" the wider population. (Rowley, 2014).

In this study the questionnaire addresses the research goals including the objectives and is designed to draw this data and allow a process where conclusions could be made. The use of questionnaires will be critical in this study in assessing the impact of preferential procurement on Black SMEs and establishing whether the policies are developmental or not.

3.4.4. Interviews

Interviews put a set of questions to a respondent face to face and the interviewer records the respondents' responses. Interviews can be structured, unstructured interviews and semi-structured interviews. These offer a versatile way of collecting data (Welman and Kruger, 2001:159-161).

According to (Boyce and Neale, 2006) qualitative research technique involves In-depth interviews with a small number of respondents to gather specific information on their perspective on a particular topic.

Structured interviews consist of the same questions answered by different interviewees in the same order. Unstructured Interviews are considered to be less reliable as there is usually no preparation prior to the interview. This type of interview is usually biased, and a comparison between respondents is difficult to do as the questions are not entirely the same. In this study structured interviews will be used, when interviewing the respondents. This allows for the accurate collection of information on the views, perceptions and experiences.

3.4.5 Data analysis

According to Dudovskiy (2016), data analysis in qualitative research such as interviews and focus groups involves analysing the identified common patterns within the research to achieve the research aims and objectives. Data analysis in a quantitative study attempts to critically analyse and interpret figures and numbers and finding the rationale behind the emergence of main findings. Due to the fact that a qualitative approach was used in the research, data will be analysed in relation to the aims and objectives of the study. (PhD, no date) identifies two approaches for data analysis in a qualitative study namely the deductive approach and the inductive approach. The deductive approach which has been selected for the purposes of this study involves using your research questions to group the data and then look for similarities and differences. It is used when time and resources are limited and when qualitative research is a smaller component of a larger quantitative study.

3.4.6 Thematic analysis

In analysing the data Braun and Clarke (2006)'s thematic analysis was used. The thematic analysis was the most suitable, due to its flexibility. The phases which were in this study is the acquaintance with the data, creating first codes, looking for themes, analysing the themes, defining and naming the themes and finally finalizing the report.

3.5 Limitations of the study

This study is not without limitations and further research would recommend. The population of smme's is vast and would include a large sample within the country. Thus, a convenience sampling was drawn from the targeted population as a result of resource and time limitation for the study.

3.6 DELIMITATIONS OF THE STUDY

The investigation will be limited to the black small medium enterprises that will be based in the Eastern Cape. The impact of the public preferential policy will be based on the government departments with the focus being on the departments that are responsible for infrastructure deliver such as municipalities government entities and the department of public works. The SMME under investigation for the purposes of this study will be the SMME with in the construction sector under the general building works as defined by the construction industry board. Projects that have been developed by private sector companies will not be included in the study an analysis of the activity within the last five years will only be considered. 2012 to the year 2017. Black owned SMME should be those SMME companies that are 51 % or more owned by previously disadvantaged individuals

3.7 ETHICAL CONSIDERATIONS

Ethical considerations are very important in this research. Making ethical considerations ensures that there is no fabrication of the information provided and that the information is accurate. Appropriate ethical guidelines were followed. Ethics can be defined as the importance of the researcher's behaviour in relationship to the rights of the participants (Saunders et al., 2009). Research ethics is linked to the entire research process; from the initial stage of planning and providing a definition of the topic, designing the study, gathering data, information analysis, interpreting the information and reporting on the findings in the most suitable and consistent way (Saunders et al., 2009). The interviews conducted were kept confidential and private. The participants to volunteered to participate in the interviews in representing the chosen organisations. The participants were required to provide their consent in writing and complete consent forms for confidentiality purposes for this research. . The

information of the participants were kept confidential and objectivity throughout the research was maintained.

3.8. SUMMARY

This chapter is describing the research method which will be conducted in this research, to gather evidence to prove the validity of the objective which is to determine the impact of preferential procurement policies on the development of smme's. This analysis whether the current policies encourage growth and development of the smme's or do they stifle the growth of the smme's. This study will thus allow for the analysis of the policies and how they can be improved to ensure that they are developmental for the black smme's.

CHAPTER 4

RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

This chapter illustrates the analysis and interpretation of the research data which has been collected through the questionnaire and interviews obtained from the respondents. The respondents comprised of Black Small Medium and Micro Enterprises operating within the Construction Industry.

The questionnaire covered four Sections namely; Sections A, B, C and D. Section A included the general information on the SMME Business regarding type of ownership, details of entity and CIDB classification. Section B focused on the SMME experience with regards to tendering procedures and experiences. Section C covered the issue pertaining to the development and growth of SMME, and Section D focused on the Intervention and recommendation of SMME. Telephonic and oral interviews were also conducted to provide clarity where and when required.

4.1 SAMPLE DESCRIPTION

A total of 25 questionnaires were issued and 20 questionnaires were returned and completed correctly. The respondents were selected randomly from a pool of Black owned SMME companies operating with the Construction Industry. The profile of the respondents was Black owned SMME companies which in some cases included female ownership. Under the CIDB grade classification, the respondents ranged from Grade 1 to Grade 4. The respondents' experience within the construction industry ranges from 3 years to a maximum of 14 years of experience. 50 % of the entities that participated in this survey had female ownership in some cases the companies were 100 percent female owned. The annual turnover ranges from 250 000 per annum to about 1,5Million per year with two of the respondents exceeding 1,5M per annum.

Table 4.1: Profile of respondents

| Respondent | CIDB Construction Grades | Numbers of years in operation | % Black Ownership | % Female Ownership | No. of Employees | Company Average turnover |
|------------|---------------------------|-------------------------------|-------------------|--------------------|------------------|--------------------------|
| 1 | 1 CE | 7 | 100% | 0% | 3 | R 300 000,00 |
| 2 | 3 CE / 1 GB | 14 | 100% | 100% | 0 | R 3 000 000,00 |
| 3 | Grade 1GB, CE, ME | 6 | 100% | 0% | 2 | R 300 000,00 |
| 4 | 1 GB,1 CE,1 SIL,1 SQ, SE1 | 6 | 100% | 0% | 2 | R 300 000,00 |
| 5 | Grade 1 | 10 | 100% | 55% | 4 | R 300 000,00 |
| 6 | CIDB 2 | 3 | 100% | 0% | 2 | R 250 000,00 |
| 7 | CE3, GB1, SQ1, EB1 | 6 | 100% | 50% | 6 | R 1 000 000,00 |
| 8 | 3CE, PE, 3GB, PL | 12 | 100% | 0 | 48 | R 7 000 000,00 |
| 9 | 1CE, PE and 2GB | 10 | 100% | 0 | 12 | R 780 000,00 |
| 10 | Grade 1 | 3 | 100% | 100% | 1 | R 300 000,00 |
| 11 | Grade 2 | 14 | 100% | 100% | 2 | R 400 000,00 |
| 12 | 4GB, PE and 1CE, PE | 11 | 100% | 100% | | ±R10 000 000 |
| 13 | Grade 2 | 6 | 100% | 0 | 2 | R 1 000 000,00 |
| 14 | Grade 2 | 5 | 100% | 100% | 10 | R 1 500 000,00 |
| 15 | 1CE | 3 | 100% | 100% | 5 | R 500 000,00 |
| 16 | 2GB | 8 | 100% | 100% | 10 | R 500 000,00 |
| 17 | 2GB, 1CE | 4 | 100% | 100% | 5 | R 500 000,00 |
| 18 | 2GB/PE and 2CE/PE | 5 | 100 | 100 | 4 | R 1 800 000,00 |
| 19 | 1GB | 3 | 100 | 50 | 1 | R 560 000,00 |
| 20 | 2 | 2 | 100 | 0 | 3 | R 2 200 000,00 |

4.2 CHALLENGES FACED BY BLACK OWNED SMME'S

4.2.1 Tendering Procedures and Experiences

In terms of the tendering procedures and experiences, the respondents viewed this in a similar way. The respondents strongly accepted and agreed to be familiar with the tendering procedures as most of them were generally aware of the procedure. Through

the practical experience they have been aware of the procedure involved in tendering. However, when it came to the legal understanding of Preferential Procurement Policies Act, most of the SMME's admitted to being unfamiliar with the provision of the legislation. They were purely reliant on what they read and what they think they understand. Most of the contractors have indicated that they have not received any training on the tendering system and procedures and thus still struggle with the process.

The Black SMME's have also shown discouragement and trust in the tendering system. The majority of the SMME's do not consider the tendering process to be fair. Eighty percent (80%) of the respondents consider the tendering process to be unfair and many citing the element of corruption as being the reason for the unfairness.

4.2.2 Preferential Procurement Benefit

With regards to Preferential Procurement Legislation, one of the objectives for this legislation is to ensure preference to those individuals that were previously disadvantaged. The Black SMME's would be considered to be the beneficiaries of this legislation. The results obtained from the data totally contradicts the objectives of the Preferential Procurement Legislation. 95% of the Black SMME's have indicated their dissatisfaction with Preferential Procurement as they do not derive an advantage or benefit from this policy. The reason that they do not benefit from the policy has been highlighted by the low number in the tenders that they have been awarded in the last five years. The number of submissions shows a low number of awards in relation to the submissions made. The low growth turnover of the entities over the last five years signifies the low level of development and the inability of this policy in affording the smme the opportunities that they desire.

The success rate and the low turnover in the value of tenders awarded illustrates the policies failure in affording opportunities to the smme's. Many of the smme's have identifying the omission of the tendering system and a system focused on setting contract aside as a better option that would assist and contribute towards their development and growth. The preferential procurement policy is not yielding the desired outcomes. (Shakantu and Kajimo-Shakantu, 2007) support this notion as they point out that despite government's perceived good intentions through preferential

procurement there are a number of shortcomings that cloud this potential. These relate to poor targeting of beneficiaries, inadequate planning, onerous tender specifications to be met and poor monitoring and evaluation procedures.

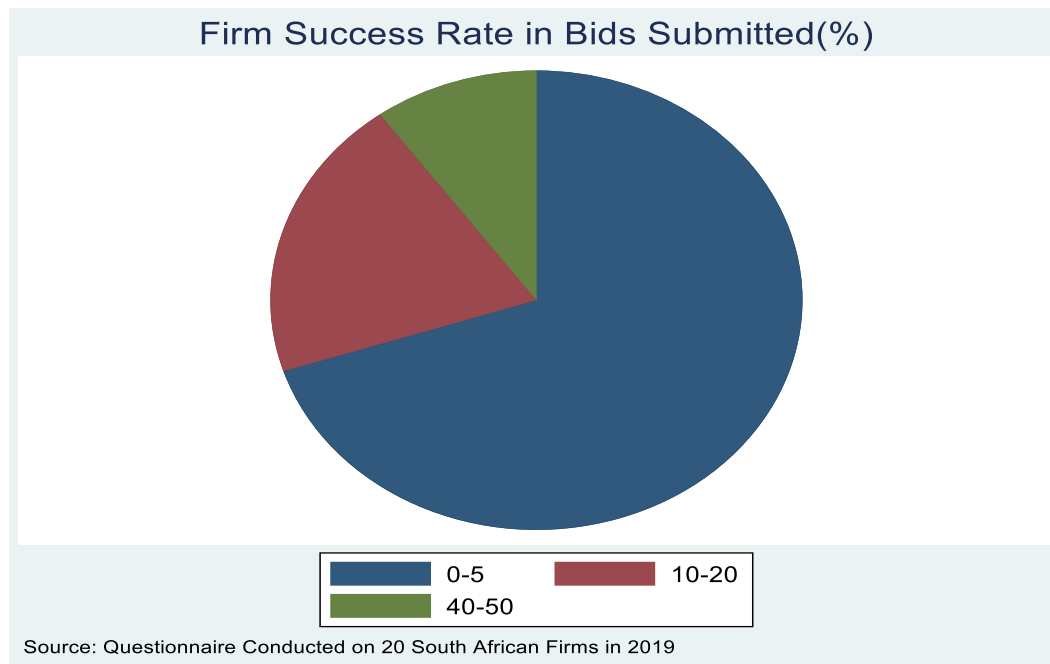


Fig 4.1 Firm Success Rate in Bids Submitted

The success rate in tender awarded per submissions as depicted in the above pie chart Fig 4.1 shows a poor success rate in terms of the awards made to the black SMME entities. Awards are considered to be the successful bids which the tender wins and gets appointed for a particular bid. The success rate depicted above has considered the submissions made by the different entities and the actual awards made where the Black SMME has been appointed or awarded a particular project. The chart shows that the vast majority of the respondents have a success rate of between 0 and 5 %. It also needs to be further noted that out of those that fall in between the 0 to 5 % category, 54 % of the Respondents confirmed a 0 % success rate in the tender awards over the last 5 years.

The second largest share of the pie would be those that have a success rate of between 10 and 20% success rate. A minor portion of the respondents have rated their success rate between 40 to 50 %. The low success rate shows that there is a lack of

Benefit and advantage for Black SMME's in spite of the Preferential Procurement Policy. This also emphasises a very low rate of success which encapsulates the difficulty or bottlenecks in ensuring a successful Bid. The unfairness and the corruption of the system has been highlighted as the main reasons for this low success rate. The lack of mentorship and training and development have been identified as contributing factors on the poor and low success rate.

The low success rate in securing tenders has direct implication on many other factors that impact on the development and growth of the SMME's. With the minimal successful tender awards rate on government projects, the ability for the often less operationally diversified entities to have continuous work opportunities is severely curtailed. Growth, development and sustainability of these entities is compromised. Over the five-year periods some entities would not be awarded a tender and would have to sustain themselves for a period of 5 years without any projects for them to execute. This is a disadvantage of the tendering system as it does not guarantee future projects and sustainability of those entities participating in the tender or bid process.

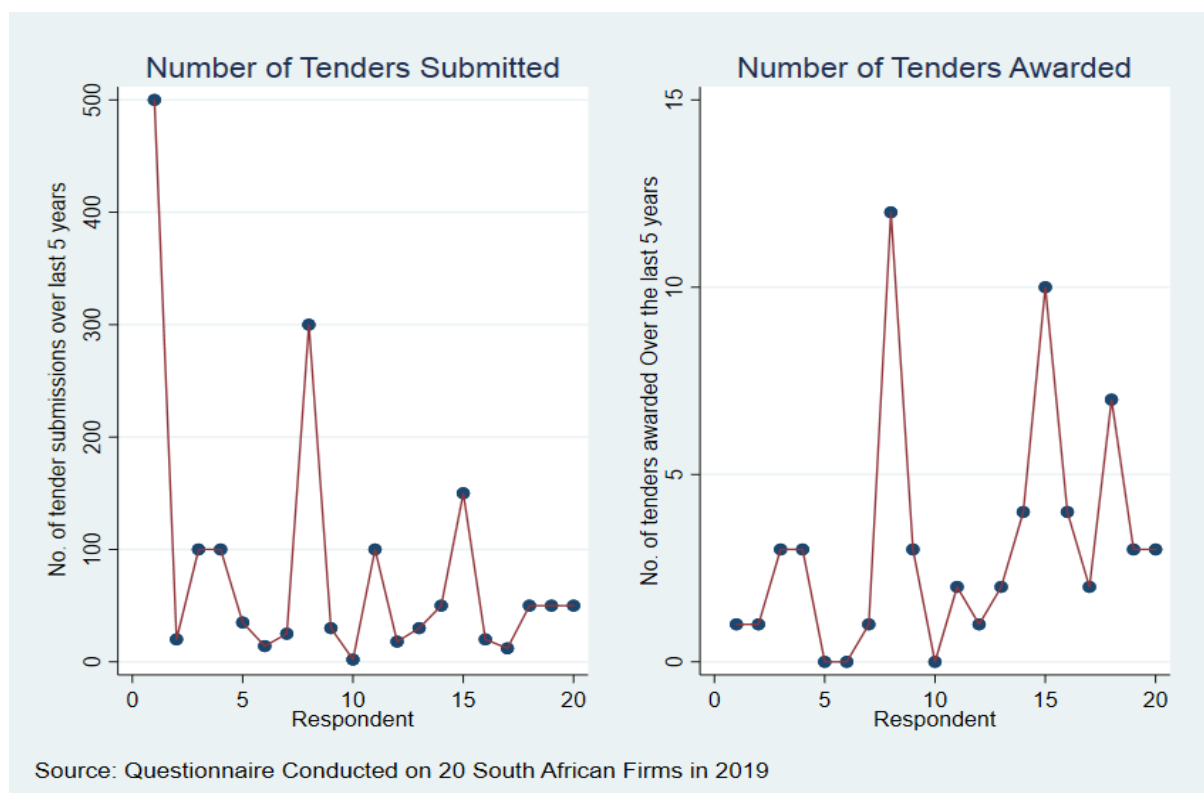


Fig 4.2 Number of Tenders Submitted vs Tenders Awarded

The above graph Fig 4.2 shows a comparison between the tender submission made by the SMME's and the tenders awarded. The scale for the submissions is far higher than the awards as it ranges from 10 to 500 submissions. On the other hand, the tender awards ranges from 0 to 12 Awards. This shows a huge gap in terms of the tender submission and the awards made to Black SMME companies. According to the graph there seems to be a trend that shows an association between the number of awards and the tender submission. The graph shows that the more tenders submitted by the SMME's the better the chance for an award. What is of concern is the number of awards that have to be submitted to secure an award. In some cases, one of the respondents made over 500 submissions only to secure less than 5 awards.

From the respondents it can be noted that there seems to be a 50/50% split in terms of reliance of public sector works or government works. 50% of SMME's are not benefitting from the public sector opportunities but rather rely on the private sector. This is despite the fact that private sector companies are not compelled by the law to use Preferential Procurement. This question was posed to ascertain the advantage that Black SMME's gain on public projects vs private projects. This take full cognisance that with public projects the legislation promotes the use of black companies. Based on the findings, the benefit seems to be split, and no real benefit is being realised on public sector projects. This indicates that existence of the preferential procurement policy does not give them the competitive advantage that is intended to as the private sector seems to be equally lucrative without the preferential procurement policy. This is supported by the contractor's assertion that the contractors made that they do not derive any benefit from the preferential policies.

4.3 Training and development

Through the quarterly submission (CIDB, 2012) the training and development monitoring should consist of indicators of development that should be inclusive of growth in competence reflected through technical skills and construction experience and the 'process maturity' within a contracting organisation normally expressed in terms of its business and construction processes. Training and development of SMME's is vital in ensuring growth and sustainability of the black enterprises. Due to the historical exclusion of black owned companies on public sector opportunities pre 1994 it is important to establish if there has been assistance of these companies.

Development and training programs are meant to enhance the available skill and assist in promoting it to ensure that formidable and sustainable entities are created. These programs would assist the black SMME's to acquire practical skill and assist in creating growth and building capacity.

75% of the Black SMME's interviewed have not been part of any training and development program. The program assists with the development of SMME's to grow and acquire the relevant skills and be mentored. What is also significant is the SMME's are not only excluded in taking part of Development and training programs but 85% of them are not aware of any programs that are currently being offered for development. A minority of the respondents have been part of the development programmes. The programmes identified have been sponsored by Small Enterprise Development Agency, Eskom and Department of Public Works. This signifies that there has been minimal attention given to the training and development programs. The Public sector has not been able to conduct meaning full development programs that would enhance the smme's.

(Van der Zee, K; Bhorat, H; Asmal, Z; L, 2018) supports the training and development of smme's as he states that the low skills profile of SMMEs in South Africa may present a barrier to growth, as skills, experience and education are important requirements for the growth and development of a business, specifically the skills and experience of the entrepreneur. Thus, skills development amongst small business owners and employees may be an important enabling factor for development in the sector.

Without a clear training and development program the SMME's have to rely on the normal tendering system to secure an award and also to achieve development and growth. Under the tendering system the SMME's have indicated that little growth has been experienced over the last five years. According to the graph below Figure 4.3 the majority of the respondents have confirmed a 0 % growth of their entities. The second largest portion are at 5% growth over a period of 5 years. The majority of the respondents have not seen more than 15 % growth over the last five years. The balance of the respondents has experienced a growth rate of between 15% and 70% even though this combination makes up the minority of the respondents. It is evident that even with Preferential procurement legislation and the development and training

policies little growth and development is being realised among the Black SMME's entities.

The ability of the tenders has been identifies as the main reason why there is slow growth among the smme's Contractors are unable to secure the awards due to the low success rate .The lack of training and development has not afforded the smme's the skills to be able to secure the work and execute the work citing the overwhelming need for Practical training and development . The majority of the black owned contractors had not received any form of training and mentoring and thus experience difficulty. (Human, 2006) Further emphasises the point on education by pointing out that the government should focus on the education of upcoming young people than focussing on forcing unskilled people into positions they are not capable of performing. People should be trained and empowerment must focus on empowerment through knowledge.

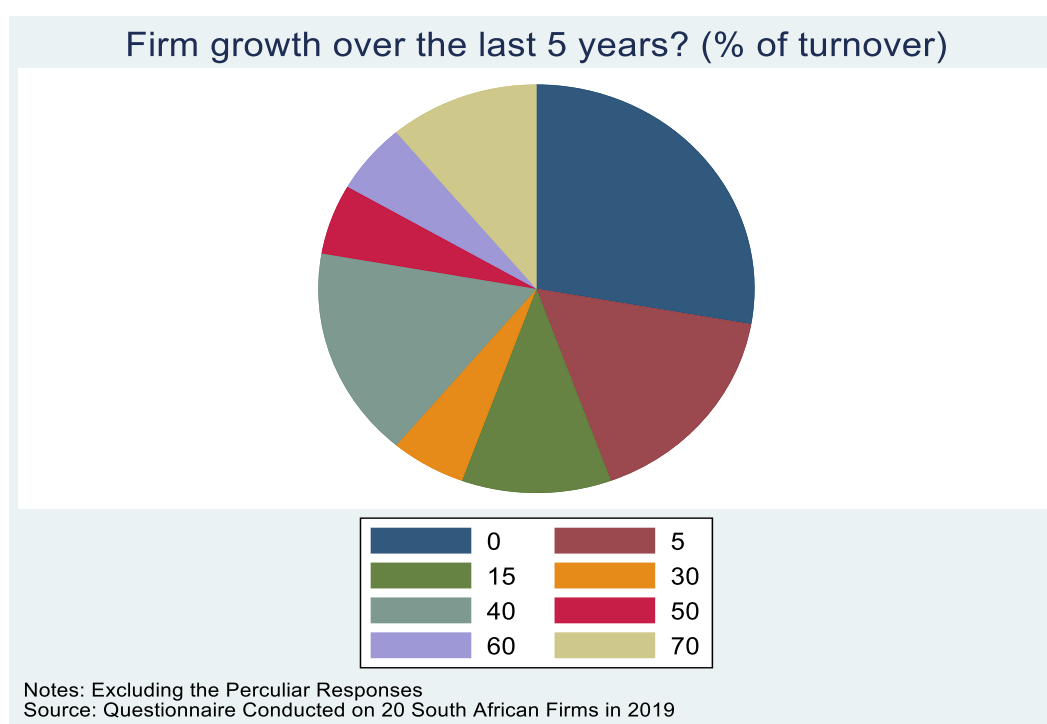


Fig 4.3 Firm Growth over the last 5 years

The Black SMME realise the importance and benefit of the training and development programs. 95% of the respondents are with the advantage of the training and development programs. Some of the respondents highlight the importance of practical and technical programs in nature. This would enhance the skills of the SMME's. All of the respondents have shown interest in participating in a development program that is

aimed at raising their CIDB grading classification. Practical on-Site training and development has been seen as the best solution by the respondents that would assist in ensuring their growth and development. Some of the respondents have identified ring fencing of projects targeting SMME as a way to assist with the development.

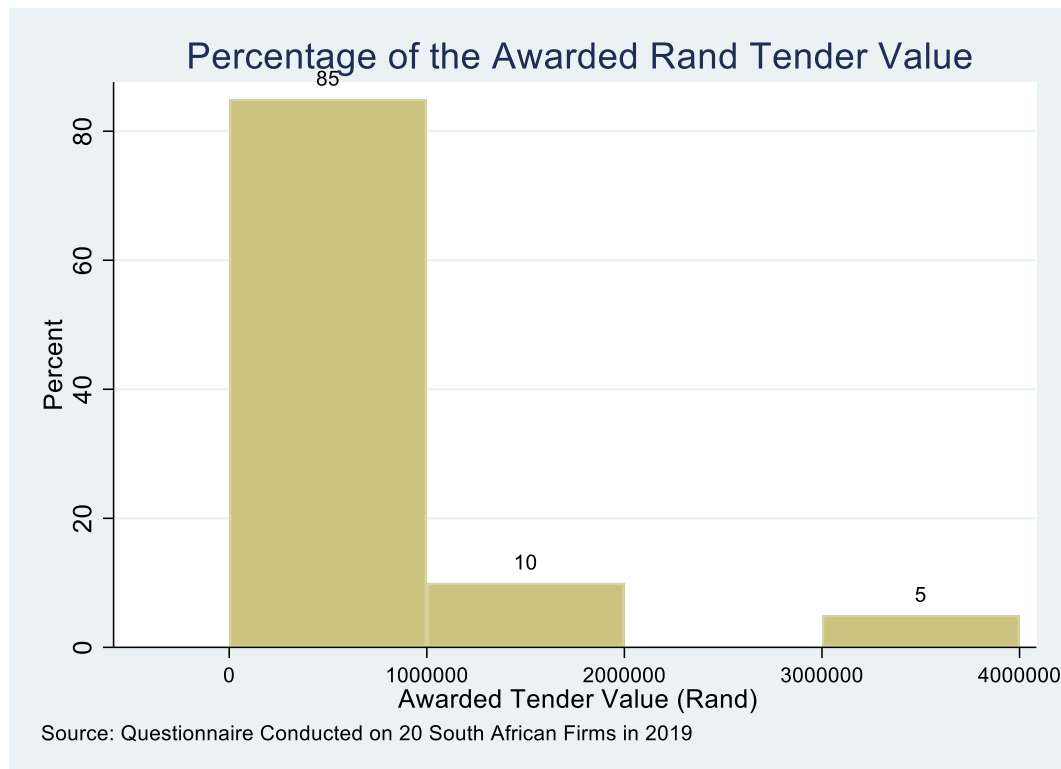


Fig 4.4 Percentage of The Awarded Values

The above graph, Figure 4.4 depicts the histogram for the value of the projects that have been awarded to the black SMMEs. The graph shows that 85 % of the awards have included values that have been less than a million Rands in value. Operationally, values of this magnitude would be associated with very small projects and thus less sustainable than the larger ones. Further, only 10% of the organizations have been awarded a project of between one million and two million Rands. A small portion of only 5 % percent of the tenders have been awarded a value of between three million and four million Rands worth of tender value. This suggests that for the surveyed organizations the majority of the black SMMEs are concentrated on the lower tender values. This highlights the poor ability of the tendering system to ensure growth of the smme's and the lack of development of the smme's. The inability to secure the projects through the tendering system has left them stagnant inters of the growth and

development. As a result of the lack of development aspect with ion the policy the smme's are left concentrated on the lower end with regards to the value of works. The lack of the training and development is also a major contributor to the large concentration of the contractors on the lower end of the value scale.

4.4 SUBCONTRACTING

Whilst subcontracting is seen as a form of empowering SMME's, allowing them to obtain supervision from main contractor, 70% of the SMME's do not regard subcontracting as an approach that is assisting SMME's to grow and develop. A number of the SMME's have been part of subcontract agreement with larger entities. Some respondents have highlighted lower building cost rates as being a major disadvantage when subcontracting. By nature of sub-contracting the smme's have to take lower margins on the main contractor's rate so as to remain competitive on their building rates. These rates are often low leaving very little room for them to manoeuvre and benefit optimally. Subcontracts rates have very little profit margins as the main contractor also has to be compensated. This will also have an impact on the SMME's prospect of growth and ability to reinvest within the entity.

Whilst subcontracting affords the smme's opportunity for work it is however not the most ideal option as the majority of the respondents have indicated that sub-contracting is not assisting their entities to grow. The minority of the smme's do accept the subcontracting option as it is the only alternative that gives them an opportunity to work or else, they would be without any work opportunities and projects.

4.5 COMPETITIVE BIDDING

As part of the Public Procurement Legislation, competitive bidding based on price forms a significant part of the tender process depending on the value of the project. According to the legislation the price element contributes 80% or 90% in determining the final adjudication or award of a Tender. Preference points (which include for BEE, women youth and supplier development points etc) would make up the balance of the points being the 10% or 20%. This means that the weight of the points is based significantly on the price. Competitive pricing thus could influence the award of the tender due to its high weighting. The SMME's have found the competitive bidding

based on price to be a disadvantage. 95% of the respondents do not consider that competitive bidding as an advantage. This is further supported by 80% of the SMME's viewing tender award prices to be too low and thus not allowing for sustainability and investment. To revisit the preference points system and consider allocating a portion of the points to SMME's and on CIDB grading levels for the construction sector. This will provide emerging enterprises in the construction sector with an added price advantage when competing with larger and more established contractors, in particular on projects of lower value.

Competitive bidding creates an environment where the tenders compete aggressively on price and in many instances compromising their ability to execute the works. Low prices could ultimately lead to the failure of the SMME companies as they are awarded tenders at amounts which are below the cost price of executing the works. Only 5% of the SMME's have been able to reinvest in their entities through purchase of plant and equipment. The low prices limit the ability of making reasonable profits and as such little investments are made in plant and equipment. Reinvestment would in the long term assist the contractors to execute their work more efficiently and thus allow for better profits to be realised and will allow the entities to grow and compete better.

With the aggressive pricing that results from competitive bidding the profit margins are low, and, in many instances, losses are incurred in the desperate attempt to be competitive and secure an award. This is a major obstacle as some of the tenders have sighted the use of a standardised pricing option so as to avoid the low pricing. Standardised pricing would help eliminate the below market pricing and provide for fair pricing system. A rotational system was also proposed which would entail standardised prices and the smme's would be given work opportunities on a rotational basis rather than on the lowest price.

In light of the short comings of the competitive bidding process (Letchmiah, 2012) argues for the revisit of preference points system and consider allocating a portion of the points to SMME's and on CIDB grading levels for the construction sector. This will provide emerging enterprises in the construction sector with an added price advantage when competing with larger and more established contractors, in particular on projects of lower value. As identified by the by the smme's this will assist in shifting the emphasis on the price for the small medium enterprises.

4.6 LONG TERM CONTRACTS

Construction projects by nature are time based and thus limited to a certain duration. As in any business enterprise, the continuity of the business is vital in ensuring sustainability for the entity. One of the critical issues with the construction industry is the security of work over a long term as the appointment of the next project is not guaranteed. The majority of the SMME highlighted this as a challenge as they cannot secure the continuity of projects. The tendering system is specific to each and every project and this does not ensure that an entity will remain viable for a period of time. In many instances the project duration is short resulting in many instances with the contractor without any work.

The ability of the tendering system to secure work over long terms would assist towards the sustainability of the contractors. 85% of the respondents have identified long term contracts as considerable advantage which would ensure sustainability. 3 to 5-year contracts have been identified as an ideal opportunity for Black SMME's to remain viable as opposed to the current short-term appointments which they are exposed to currently. Many of the respondents have identified the long-term contracts as one of the solutions that would enhance the development of Black SMME's.

CHAPTER 5

RESEARCH CONCLUSION AND RECOMMENDATION

5.0 INTRODUCTION

This chapter covers the conclusion and recommendation of the issues raised around the role of preferential procurement policies on development of black owned construction SMME's in South Africa. The contribution of this study will be one of the main aspects that will be highlighted. Due to the nature of this research, the study will be limited to certain aspects around the topic, however, future research on aspects relating to this study have been recommended. With the full analysis of the data being completed in chapter 4 in this chapter conclusions and recommendations based on the research findings are presented.

5.1 SUMMARY AND CONCLUSIONS

In chapter one an introduction to the study was provided. The importance and the main objectives for this study were identified. The structure of the research was also crafted depicting how the study will be conducted and the main areas of interest.

In chapter two, the literature around the understanding the role of public preferential procurement on the development of black owned construction small medium and micro enterprises in South Africa was discussed. Literature highlighting the importance of SMME within the economy and its social impact were covered. Based on the Construction Industry Development Board extensive literature was obtained focusing on the status of the construction industry. The current status on the grading of contractors and an analysis thereof was summarised.

The main issues on the legislation affecting public procurement and SMME development policies were an integral part of this study. The literature providing a more detailed look at the preferential procurement policies which were established to advance the development of black entities.

Empirical literature on the international procurement experience has been considered in this study. Various policies from different countries on preferential procurement, public procurement and affirmative action policies formed part of the literature review. Literature from the U.S.A, Malaysia and East Africa was provided.

The literature reviews covered in chapter two provided an extensive background on issues pertaining to public procurement, SMME economic contribution, status and analysis of the procurement within the construction sector and the industrial procurement experience.

The methodology and approach of the research was provided in chapter 3. Main focus of this chapter is to provide an appropriate research method that will give full effect to the purpose of the study. The research methodology was presented to gain insight on the topic. The qualitative method was the most appropriate for this study and was applied using a survey questionnaire with semi-structured interviews.

The primary data was collected through the use of survey questions and semi-structured interviews. Purposive sampling which included convenience sampling was employed to determine the sample. A total of 20 respondents was finally used for the data analysis. The comprehensive analysis of the data collected through the survey questions and semi structured interviews was presented in chapter 4. The findings and the discussions of the findings are noted in this chapter so as to provide a conclusion and recommendations.

From the data analysis that has been gathered from the respondents that participated in the study there are clear conclusions that can be drawn. A better understanding has been made on the development of black owned construction SMME's within the South African industry. The respondents have clearly identified the lack of development as one of the major obstacles for the SMME. Whilst there are various development programs being initiated, these seem to affect only a few of the SMME's. Many of the SMME's have not been part of any development programs nor are they aware of the existence of such programs. On site practical training and development have been identified as crucial intervention that the black SMME's would require to ensure their growth and development.

Preferential procurement practices in public procurement are an important government intervention strategy for stimulating the growth and development of SMMEs in the construction industry of many countries including South Africa (Hawkins, 2012; Watermeyer et al., 2001) However over the years there has been very little development and growth for the black SMME'S. A major portion of those entities has not recorded any growth over the last five years. The CIDB records show over 90% of the Black Contractors all fell within the CIDB grading level of below level 4. The development trajectory of the SMME's has been very poor with many SMME contractors not receiving any awards or appointments over a period of 5 years.

This study has expanded the empirical body of knowledge relating to the understanding of the role of public preferential procurement on the development of black owned construction SMME's in South Africa. First the current status of the construction industry with regards to the position of black entities has been important. It has been noted that a large number of black companies have been positioned at the lower end of the grading scale as reported by the CIDB. The development of the SMME has been considerably affected by the ability to secure projects. Most of the SMME's are not sustainable as the public projects are short term and cannot be secured over a long term. The current practice on construction projects does not allow for 3 to 5 year contracts and thus SMME's struggle to sustain themselves in-between projects..

The role of the preferential procurement legislation and policies on the SMME's has been highlighted. The use of these policies and their ability to ensure development and growth has been analysed. One of the major comparisons in the study has been to establish the association between the legislation and policy with the development and growth of the SMME. The preferential procurement legislation has had minimal impact in ensuring the development and growth of black owned enterprise in South Africa. The SMME's have conceded to no growth and low growth over the past five years in spite of the legislative requirements meant to benefit black SMME's. The tendering system is not trusted by the tenderers as it is considered to be unfair. Corruption of the system has also been highlighted thus limiting the impact of the preferential procurement.

Competitive bidding on price has proven to be a considerable obstacle. The SMME's have identified the low award prices to be a huge disadvantage. Competitive bidding

on price has created an environment where prices are low and thus leading to minimal profits being realised. In many cases the prices are below cost resulting in projects not being completed and SMME's making a loss.

The low profit margins emanating from the competitive bidding limits the opportunity for the entities to reinvest in their entities. Many of the Black SMME's have only realised 0-5% growth in the past 5 years. The poor reinvestment in the entities limits the opportunity for growth and thus limits the sustainability.

The preferential procurement policies have managed to increase the numbers of Black business participating in the construction sector. The problem lies more with the quality of the entities that have emerged from a sustainability point of view. The growth development and sustainability of the black smme's has been lacking and to a large extent a disappointment.

This study has further emphasised the importance of SMME and their contribution to the economy. A need to support and ensure sustainability of the SMME through use of long-term contracts has been identified. Policies of legislation that would assist the sustainability of the SMME has been pointed out as a critical aspect. The study would allow for further contribution to be made with regard to the adding value in policy and practice standards in relation to preferential procurement for black SMME entities.

This study encourages for procurement that takes consideration of the growth, development and sustainability as the key priority areas. Reviewal of the current policy to ensure development through the establishments of development programs is noted.

5.2 POLICY RECOMMENDATIONS

Based on the results drawn from the research a reviewal of the preferential procurement policies and legislation is necessary to ensure effective development of black SMME's. The study shows that the following should be done.

- The current procurement tender system with the preferential procurement policies is not assisting the SMME's to develop. A reviewal of the legislation which will incorporate measures that would ensure growth development and sustainability of the SMME should be adapted.

- Preferential procurement should market for the set aside of minor works contracts that should be exceeded by Black SMME entities only.
- The use of development and training programs should be adapted. A percentage of infrastructure programs should be implemented under the mentorship programs that aim to develop entities over a medium to long term period.
- Pricing is a challenge for the black SMME's. The competitive bidding system encourages for prices that are not sustainable and allow for minimal or no growth for these SMME's. A tendering system that evaluates tender submission based on fair market price should be included in the valuation method.
- On routine work and projects, a method of price standardisation should be adapted. This roster system should be based on standard prices that are adapted and tenders are then appointed on rotation and performance. This would be ideal for projects in the grade 1 and 2 CIDB category level.
- The study has emphasised the issues around sustainability of the SMME long term appointments should be implemented. SMME should be appointed on programs that would be implemented on a three to five-year contracts. This would improve the development trajectory of the Black SMME's over a long-term period.

5.3 AVENUE FOR FUTURE RESEARCH

One of the major limitations of this study has been the size of the sample. Black SMME entities are present nationally in the country and according to the CIDB, there are an estimated 127 000 black entities registered with the CIDB. The time limitations and resource allocation made it difficult to cover a large sample which would have provided a more accurate perspective on the issues raised in the questionnaire.

This research was purely focused on the Black SMME's in construction. A wider scope would be beneficial covering SMME's in other industries that are participating and take part in public procurement. Future research that covers all industries would be ideal in creating a comprehensive view and a better understanding of the role of preferential public procurement on black SMME.

The collection of data focused on the SMME entities did not provide alternative views from public sector and its entities. The secondary data from the public sector and records of Black SMME entities on preferential procurement would have provided significant insight as the state of affairs regarding preferential procurement. This data would have provided the actual appointments and awards made in relation to the total awards made in the public sector and its entities. Future research would assist in providing this information and thus develop more detailed quantitative analysis on the role of preferential procurement on black SMME's.

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